

FINANCIAL TRENDS IN WASHINGTON STATE CHARTERED CREDIT UNIONS

Financial Data as of December 31, 2003

HIGHLIGHTS

This report summarizes the trends of all state chartered credit unions in Washington, reported as of December 31, 2003. Unless otherwise noted, the change period for the financial ratios and/or financial statistics is from December 31, 2002 to December 31, 2003.

The total number of Washington state chartered credit unions declined from 91 as of December 31, 2002 to 86 as of December 31, 2003.

Key financial indicators are listed below:

- **Assets** increased \$1.13 billion or 7.5%. Assets are \$16.24 billion.
- **Investments** (including cash & cash equivalents) increased \$386 million or 8.21%. Investments are \$5.08 billion.
- **Loans** increased \$662.6 million or 6.69%. Loans are \$10.6 billion.
- **Delinquent loan** dollars decreased \$3.4 million or 5.68%. Delinquent loans as a percentage of total loans decreased from 0.61% to 0.54%.
- **Net charge offs** increased \$5.6 million or 9.17%. The net charge off to average loan ratio remained 0.65%.
- **Shares** increased \$946 million or 7.18%. Because loans grew at approximately the same rate as shares, the loan to share ratio remained the same at 74.7%.
- **Net worth** increased \$137.6 million or 9.55%. Net worth is \$1.58 billion. The net worth to assets ratio increased from 9.56% to 9.71%.
- **Profitability** – Net income decreased \$10.86 million or 6.77%. ROAA decreased from 1.13% for the twelve months ending December 31, 2002 to 0.96% for the twelve months ending December 31, 2003.
- **Operating Expenses** increased from 49.00% of gross income and 3.58% of average assets for the twelve months ending December 31, 2002 to 56.35% of gross income and 3.68% for the twelve months ending December 31, 2003.
- **Gross Income and Cost of Funds** – Gross income decreased from 7.39% of average assets to 6.60% of average assets, and cost of funds to average assets decreased from 2.23% to 1.51%. Consequently, the average net margin decreased from 5.16% to 5.09%.

Asset Trends: Total assets increased \$1.13 billion or 7.5%.

- Loans increased \$662.6 million or 6.69%. Loans are 64.99% of total assets.
- Investments (including cash & cash equivalents) \$386 million or 8.21%. Investments are 31.33% of total assets.
- Fixed assets increased \$44.1 million or 14.07%. Fixed assets are 2.20% of total assets.
- Other assets increased \$35.4 million or 13.3%. Other assets are 1.86% of total assets.
- The Allowance for Loan & Lease Losses (ALLL) increased \$1.18 million or 1.47%. The aggregate ALLL balance equals 0.50% of total assets, 143.98% of delinquent loans and 122.35% of net charge-offs.
- As of December 31, 2003 cash plus cash equivalents plus short-term investments less than one year divided by total assets was 14.54%.

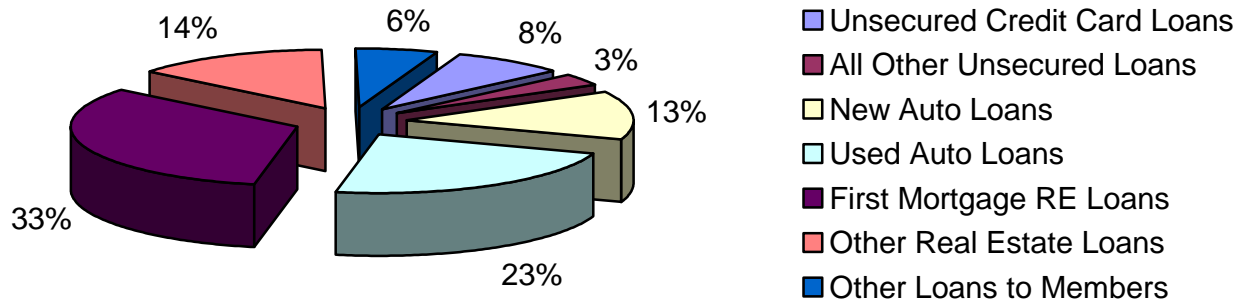
Annual Asset Growth

<u>CU Asset Size</u>	<u>12/31/2001</u>	<u>12/31/2002</u>	<u>12/31/2003</u>
Over \$500 million	11.62%	11.12%	8.34%
\$100m to \$500 million	14.34%	11.33%	9.63%
\$20m to \$100 million	13.70%	4.60%	6.31%
\$0m to \$20 million	11.64%	2.76%	3.98%

Loan Trends: Total loans increased \$662.6 million or 6.69% during the twelve-month period ending December 31, 2003. Because total loans increased slower than total assets, the total loans to total assets ratio decreased from 65.14% to 64.99%.

- Unsecured credit cards decreased \$19.76 million or -2.31%.
- All other unsecured loans decreased \$24.38 million or -6.43%.
- New auto loans increased \$132.72 million or 10.41%.
- Used auto loans increased \$243.65 million or 11.22%.
- First mortgage real estate loans increased \$480.23 million or 16.16%.
- Other real estate loans decreased \$31.32 million or -2.08%.
- Other loans decreased \$71.13 million or -82.9%.
- Fixed rate first mortgages increased \$576.33 million or 32.65%. Fixed rate first mortgage loans comprise 47.55% of all first mortgage real estate loans.
- Loans held for sale decreased from \$67.56 million to \$20.17 million.

Loan Composition



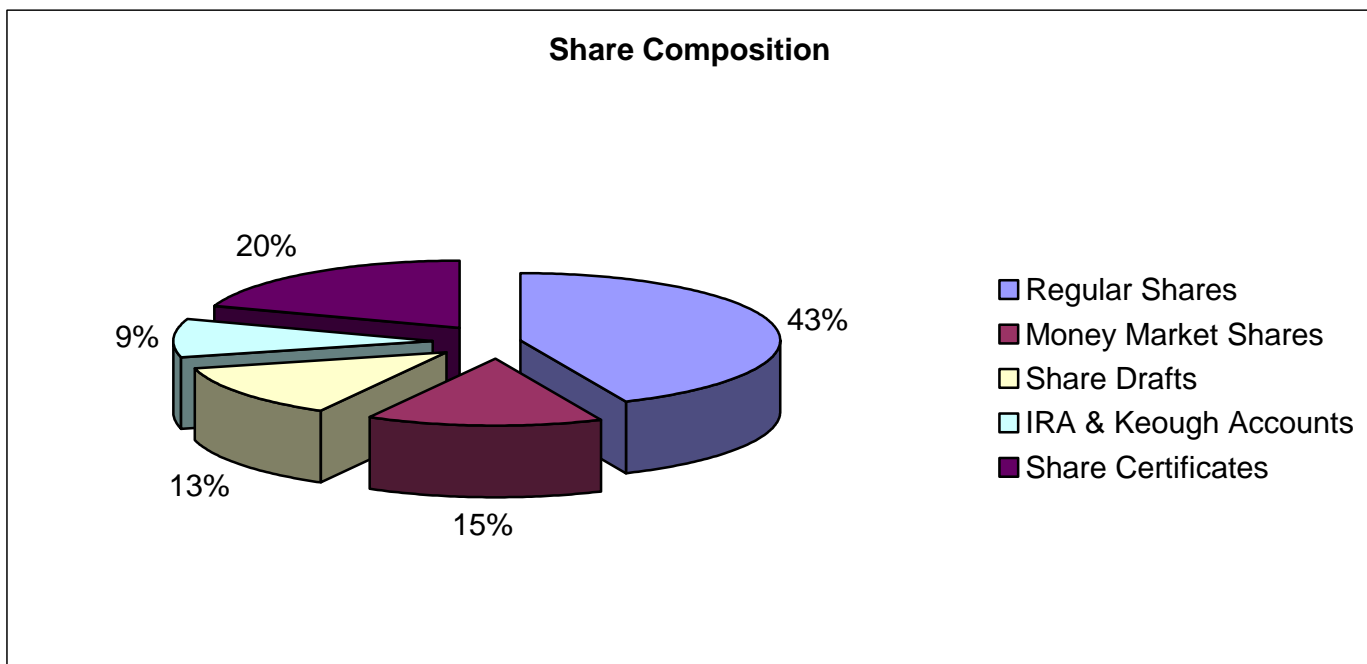
Delinquent Loan Trends: Total delinquent loan dollars decreased \$3.4 million to \$56.61 million. Because delinquent loans decreased while total loans increased, the delinquent loans to total loans ratio decreased from 0.61% to 0.54%.

Net Charge-Off Trends: Total net charge-offs increased \$5.6 million to \$66.6 million. Because net charge-offs increased at approximately the same rate as average loans, the net charge-off to average loan ratio remained the same at 0.65%.

Bankruptcy Trends: Total bankruptcy loans increased \$7.5 million to \$66.1 million. This is a 12.76% increase over the previous year-end. Bankruptcy loans as a percent of delinquent loans increased from 97.71% as of December 31, 2002 to 116.81% as of December 31, 2003.

Share Trends: Shares increased \$946 million or 7.18% and total \$14.13 billion. Because loans grew at approximately the same rate as shares, the loan to share ratio remained the same at 74.7%.

- Regular shares and deposits increased \$423.05 million or 7.43%.
- Money market shares increased \$333.41 million or 19.21%.
- Share drafts increased \$184.49 million or 11.19%.
- IRA & Keogh accounts increased \$32.22 million or 2.51%.
- Share certificates decreased \$31.52 million or -1.12%.
- All other shares (including non-member deposits) increased \$4.48 million or 3.65%.
- The cost of funds to average assets ratio decreased from 2.22% to 1.50%.



Capital Trends: Net worth increased \$137.6 million or 9.27%, and the net worth to assets ratio increased from 9.55% to 9.71%.

Net Worth/Total Assets Ratios (as of 12/31/2002 and 12/31/2003)

<u>CU Asset Size</u>	<u>12/31/2002</u>	<u>12/31/2003</u>
Over \$500 million	8.77%	9.00%
\$100m to \$500 million	10.24%	10.32%
\$20m to \$100 million	11.16%	11.30%
\$0m to \$20 million	10.99%	10.93%

Profitability Trends: The return on average assets (ROAA) decreased from 1.13% for the 12 months ending December 31, 2002 to 0.95% for the 12 months ending December 31, 2003.

ROAA Trends

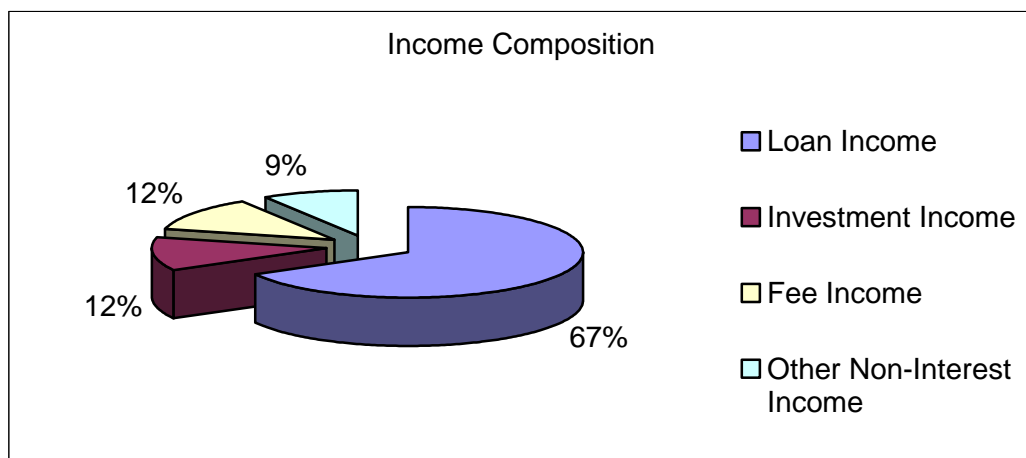
<u>CU Asset Size</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Over \$500 mil	0.64%	0.52%	0.52%	1.15%	0.94%
\$100m to \$500m	0.95%	0.78%	0.78%	1.17%	1.08%
\$20m to \$100m	0.80%	0.86%	0.86%	0.84%	0.65%
\$0m to \$20m	0.72%	0.92%	0.92%	0.81%	0.43%

Income Statement Comparison

Ratio	As of 12/31/2002	As of 12/31/2003	Effect on ROAA
Gross Income	7.39%	6.60%	-0.79bp
Cost of Funds	2.23%	1.51%	-0.72bp
Operating Expenses	3.58%	3.68%	0.10bp
Provision for Loan Loss	0.45%	0.45%	0.00bp
ROAA	1.13%	0.96%	-0.17bp

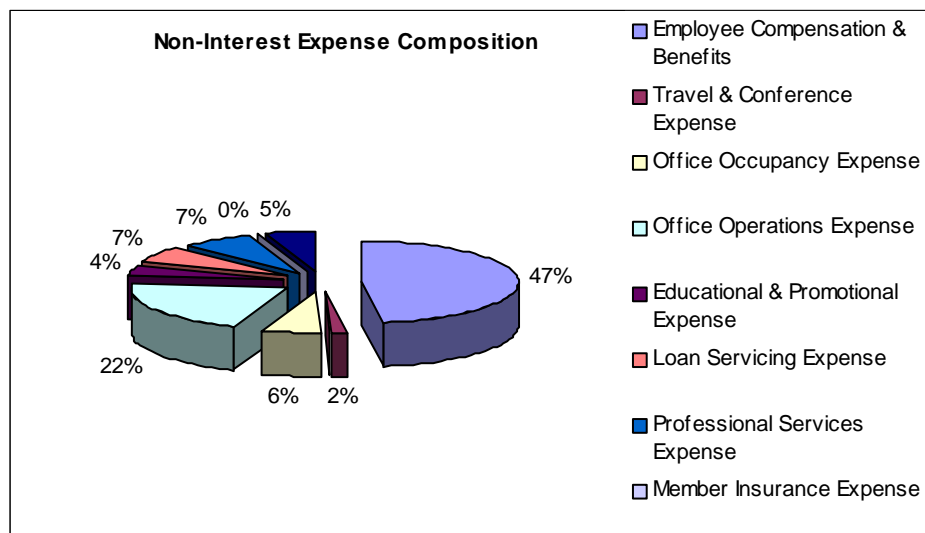
Income Trends: Gross income decreased \$23 million to \$1.03 billion. This is a decrease of 2.18%. Because average assets increased faster than gross income, the gross income to average assets ratio decreased from 7.30% to 6.50%.

- Loan income decreased \$36.3 million or 5.01%.
- Investment income decreased \$17.6 million or -12.47%.
- Fee income increased \$18.4 million or 18.52%.
- Other non-interest income increased \$12.5 million or 14.67%.



Expense Trends: Operating expenses increased \$64.5 million to \$508.8 million or 12.66%. Because operating expenses increased and gross income actually decreased, the operating expense to gross income ratio increased from 49% for the 12 months ending December 31, 2002 to 56.35% for the 12 months ending December 31, 2003.

- Employee compensation increased \$23.2 million or 9.23%.
- Travel and conference expense increased \$645 thousand or 7.06%.
- Office occupancy expense increased \$1.6 million or 4.88%.
- Office operations expense increased \$16.3 million or 15.16%.
- Educational and promotional expense increased \$1.6 million or 8.14%.
- Loan servicing expense increased \$6.8 million or 22.41%.
- Professional services expense increased \$6.2 million or 17.09%.
- Member insurance expense decreased \$160 thousand or -22.1%.
- Operating fees and miscellaneous expense increased \$8.3 million or 37.9%.



- This report was prepared by Glenn Ross.
- 5300 Call Report data was used to prepare this report.